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TRADE WITH EUROPE AND LATIN AMERICAN TRADE POLICY

Note by the secretariat

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/Introduction

Introduction

1. In compliance with requests from the Governments members of the Economic Commission for Latin America (ECLA), the secretariat a short time ago submitted for their consideration a brief analysis of events and trends of great importance for Latin America's foreign trade, relating primarily to the radical changes that have taken place in world trade policy as a result of the establishment of the European Economic Community (EEC).^{1/}

Although the documents in question present a detailed review of the situation and a full account of the reasons for the recommendations formulated, it was felt that it might be useful to summarize the basic facts and motives of concern in the present Note, and at the same time to complete the information given and bring it up to date, by including some mention of other important events that have taken place since.

2. The first of the documents stems mainly from the series of consultations held between the ECLA secretariat and the secretariats of other international organizations, especially EEC and the General Agreement on Tariffs and Trade (GATT).

Discriminatory treatment according to country of origin

3. The most important aspects of the situations described in document E/CN.12/631 may be summed up as follows:

In the European countries, imports from Latin America - especially imports of agricultural commodities - are usually subject to quantitative restrictions and discriminatory treatment in accordance with their market of origin, of a type which under GATT regulations cannot be applied when, as is the case with the countries in question, the importers are not faced with balance-of-payments difficulties and the goods concerned are among those for which duties were negotiated within GATT.

^{1/} The documents referred to - also presented at the tenth session of the Commission - are: Recent Developments and Trends in Latin American Trade with the European Economic Community (E/CN.12/631), prepared by the secretariat, and The Achievement of Co-ordination in Latin American Trade Policy: Relations with the European Economic Community (E/CN.12/632), prepared by a group of consultants convened by the secretariat.

The forms of discriminatory treatment referred to are of long standing, and already existed at the time when the liberalization of intra-European trade was confined to the sphere of influence of the Organization for European Economic Co-operation (OEEC), and was not extended to the rest of the world in respect of goods negotiated under GATT, as would have been the case if the most-favoured-nation clause established in the Agreement had been complied with.

4. The perpetuation of practices such as these led some of the Latin American countries to lodge an appeal with GATT, in 1962, invoking the provisions of those of its articles which might permit the adoption of compensatory measures. Such measures would affect Latin America's imports of goods from those European countries which were applying the discriminatory treatment.

5. In this same context, in some international circles it was questioned whether the Latin American countries, in order to promote the expansion of their markets, could or could not eliminate in their reciprocal trade the duties and restrictions that they had established in relation to their own imports in general for the sake of maintaining an over-all balance-of-payments equilibrium. Authorized circles in Latin America contend that the abolition of these duties and restrictions is not only possible but essential. It is recalled in this connexion that under GATT regulations, any expanded market which may be constituted should eliminate, in respect of the main items of the members' reciprocal trade, all internal duties and restrictions, including those aimed at safeguarding the balance of payments. Moreover, the example was set in Europe for years by OEEC, whose members lifted, in respect of their reciprocal trade only, duties and restrictions which remained in force for the rest of the world - a procedure which apparently elicited no criticism either from GATT itself or from the International Monetary Fund (IMF).

/Special features

Special features of the European Common Market

6. For its trade relations with third countries, especially in respect of agricultural commodities, EEC has established, through a series of regulations, a régime under which the consolidation of the customs duty on different goods covers only a very limited tariff quota. This régime, which is also largely subject to a system of movable duties, arouses an understandable feeling of insecurity in suppliers outside the area.

Latin America, apparently for lack of contacts and mutual support among the countries of the region in respect of their trade policy, did not succeed like other areas - for example, the United States and Canada - in concluding standstill agreements with EEC. The aim of these agreements is to avert contractions in the volume of certain traditional exports for the time being, until new negotiations have been conducted.

7. The questions raised by EEC's agricultural policy are by no means negligible. The need to solve the economic and social problems of the European agricultural sector - above all that of the rural population's inadequate share in the distribution of national income - is leading EEC to pursue a policy which in practice results in the progressive exclusion of the traditional foreign supplier of temperate-zone commodities, since as is well known, in Europe the growth of agricultural production outstrips that of demand. As regards tropical commodities, both in their natural state and processed, EEC has had to guarantee special treatment for imports from many African countries which were formerly territories politically linked to France. This special treatment unquestionably jeopardizes the expansion of similar Latin American exports on any considerable scale.

8. The Latin American countries which conducted negotiations at the fifth tariff conference in Geneva feel that they have not, generally speaking, received satisfactory compensation for the effects of the heavier average incidence of the European Common Market's external tariff. Since the conference, moreover, the countries in question have cherished little hope that certain tendencies towards self-sufficiency are likely to be modified in the near future.

/9. The

9. The repercussions of EEC's agricultural policy further complicate the already existing difficulties of applying the GATT regulations on non-discriminatory treatment, inter alia, to agricultural commodities. At the GATT session, therefore, a proposal was put forward from European sources for an international organization of markets for such commodities, with a system of fixed quotas and remunerative prices, but apparently offering nothing that could properly be called incentives to competitive suppliers like the Latin American countries.^{2/} Nor does it seem that the quotas would be increased proportionally to the growth of demand.

The United Kingdom would support this proposal in the event of its joining EEC. Presumably, the United Kingdom's membership of EEC would signify a radical change in the import policy of the British market, where at present Latin American exports are competing on a basis of price and quality. In addition to the fear that this system might change for the worse, as might perhaps happen if the United Kingdom were to adopt EEC's agricultural policy, Latin America has another motive for concern. The possibility of the United Kingdom's becoming a member of EEC seems to imply that sooner or later the preferential treatment guaranteed by the Six to eighteen African countries may be extended to the Commonwealth countries. This would still further undermine the competitive position of similar exports from Latin America.

10. The plan for an international organization of markets might lead to a selective product-by-product approach to the problems of world trade in agricultural commodities. Such product-by-product discussion might considerably weaken Latin America's capacity to negotiate. Some of its countries are major importers of specific goods of which others are exporters on a similarly large scale. Their divergent interests in relation to the establishment of marketing regulations might help to perpetuate the

^{2/} In addition to the suggestions made at the XIX session of GATT with respect to the application of the plan for an international organization of markets for agricultural commodities, in the memorandum presented by the Commission of EEC on 29 October 1962, concerning the programme of action that it was proposed to pursue during the second stage of the formation of the European Common Market, it is stated that EEC will undertake to prepare and convene international conferences on world agreements relating to the agricultural sector.

heterogeneous nature of the policies pursued by the Latin American countries, unless certain common principles of co-ordination are concerted beforehand.

Technical and financial assistance

11. The idea of giving constitutional form to the desire for political union among the EEC countries seems to have been temporarily shelved. At one time the possibility was envisaged of setting up a political commission, with a secretariat that would include a special agency for the promotion of financial and technical co-operation with Latin America.

12. Some of the Latin American countries believe that in influential European circles they see signs of a trend towards reducing to a minimum the possible restrictive effects of certain features of EEC, in the field of trade treatment, on Latin America's foreign trade. Some willingness to offer technical and financial assistance also seems to have been displayed by the EEC countries, as a counterpart to the cramping influence of the trade treatments in question.

In Latin America it is not thought that such assistance can constitute adequate compensation for the limitations to the expansion of the region's foreign trade implicit in specific features of the European Common Market. Moreover, even if great importance is attached to technical and financial assistance, it is pointed out that in practice little or nothing has been done so far in this direction.

13. Here it should be recalled that within the Organization for Economic Co-operation and Development (OECD) the so-called Development Aid Group (DAG) was assigned the responsibility of promoting the possible centralization of any technical and financial assistance that might be rendered to countries at a less advanced stage of development by the European members on the one hand, and Canada, Japan and the United States on the other. The ideas underlying the action taken by DAG would seem to include the establishment of a minimum level of assistance, perhaps fixed in relation to the income of the countries undertaking to finance it. Latin America does not seem to be represented in the discussion of the programmes concerned. The

/variety of

variety of circumstances and situations bearing on the course pursued by each of the OECD countries in these respects would suggest that very slow progress is likely to be made at the levels indicated.^{3/}

New tariff negotiations

14. The bases for the sixth conference on tariff negotiations, in connexion with the United States Trade Expansion Act, are being studied, and it is possible that the conference may be inaugurated in 1964. The major countries have agreed in principle that the conference should not follow the method of selective product-by-product negotiation that has been used up to now, but should adopt instead a linear method based on treatment for groups of items in the customs tariff.

Are there grounds for hoping that the long-cherished aspirations of the less developed countries will be realized on this occasion and that efforts will be made to open markets in the great centres for semi-finished and finished goods? If these efforts were to bear fruit, these countries' exports would be diversified and their balances of payments strengthened. The Governments of some of the major countries apparently endorse this aim, at least in the abstract. In any negotiations to institute this system, the less advanced countries would not be required to grant compensation in keeping with the traditional notion of reciprocity.

One of the many questions raised by this prospect is how to reconcile the new system with the régime of linear reductions. On the answer to this will largely depend its desirability and significance for the Latin American countries.

15. The adaptation of Latin America's exports to face more intensive competition, such as is typical of world trade in manufactured goods, cannot be accomplished easily or rapidly. In default of a special agreement

^{3/} On 16 November 1962, the NATO Parliamentarians' Conference made certain tentative arrangements for convening in 1963, under the auspices of OECD, a conference on private enterprise and public co-operation at which consideration would be given to measures for co-operation in the economic development of Latin America.

on the subject with the United States - some Latin American circles being convinced that theoretically at least there is no reason why the two systems could not exist side by side - the treatment obtained in the great centres would be valid for all the relatively less developed countries in the world, some of which have already been markedly successful in developing certain industrial lines for sale abroad. Moreover, the growing productivity of European industry, under the spur of such factors as the specialization made possible by the establishment of the expanded EEC market, and its effect on prices, indicates that, even if import duties on a certain number of manufactured goods were completely abolished in Europe, the equivalent goods from abroad would have to face intense local competition which would add its influence to other factors in raising freight costs.

Although the situation may vary considerably according to the type of manufacture concerned, it should be asked, in the first instance, whether criteria should be formulated for the inclusion of the different industrial products in the new régime as each of the less developed countries translates its effort to diversify into practical terms. The products in question would naturally be those exports that could make a fairly sizable contribution to the balance of payments.

When the criteria governing their acceptance are discussed, some aspects should be dealt with in greater detail. For instance, in view of the shortage of skilled labour in Europe, which coincides with the fact that the creation of employment opportunities in Latin America is inadequate for the requirements of population growth, it would perhaps be advisable to come to an agreement on trade with the major centres in particular manufactured goods. Without detriment to other procedures, this trade could be based on schedules that, on the Latin American side, would contain items in which labour inputs per unit of finished product would represent a substantial proportion and, on the European side, items in which a high proportion would be represented by capital. This and other issues raised by export diversification should be examined at length and, if possible, by the Latin American countries jointly so that guide-lines can be laid down for the development of trade policy. In the absence of this kind of action, trade policy will not have enough background material

/to draw

to draw upon to substantiate its position when these points are being discussed, both in relation to the preparation of the bases for the conference on tariff negotiations connected with the United States Trade Expansion Act and to the preparatory work for the Conference on Trade and Development which will be discussed later.

16. In regard to this same matter, some circles have raised a fundamental point. Since only a few of the Latin American countries belong to GATT, would it be better to take part in the sixth tariff conference or to hold separate negotiations with EEC? If the latter, on what basis and in respect of which items would negotiations be held? Whatever the methods adopted by EEC and whatever the path followed, it is a moot point whether Latin America as a whole will succeed in taking joint steps to prepare the bases for negotiations, to formulate requests relating to tariff treatment for individually specified export items and to determine the availability of possible counterpart items.

Suggestions with respect to the formulation of guide-lines
for trade policy

17. In the document entitled The Achievement of Co-ordination in Latin American Trade Policy (E/CN.12/632), a group of eminent experts in trade matters specially convened by the ECLA secretariat, analysed the current situation and its prospects and made some recommendations. To begin with, they pointed out that the trend being taken by world economy and the tendency towards the establishment of big markets are compelling every region to reconcile or co-ordinate the trade policies of its member countries. In Latin America this harmonization is needed to spur on the process of regional integration and to expedite and make it easier to reach an understanding and collaborate with the big markets. The operation of these markets as, for instance, EEC, will largely determine the trend of Latin American integration. There is no doubt that its integration will do much to develop trade with the world centres provided that they do not limit the expansion of Latin America's traditional exports and that they offer an opening to certain manufactured goods. But if these markets become self-sufficient, Latin America will in its turn be forced to gear its growth

/inwards and

inwards and extend its industrial production to items that it would be more economical to buy in the markets in question in exchange for its exports.

18. The group recalled the desirability in that connexion of the consultative agreements that were suggested by EEC in April 1958 but failed to arouse sufficient interest in the Latin American countries at the time. It then goes on to name some of the points that might be included in preliminary negotiations forming part of the consultative agreements. They would be:

- (a) Internal taxes applied in the EEC countries to Latin American goods;
- (b) The problems created by the agricultural protectionism of EEC with respect to Latin America's traditional exports, and future access to the European market on a scale commensurate with the volume of Latin America's contributions in the past;
- (c) Problems deriving from the sale of subsidized agricultural commodities by EEC countries;
- (d) The whole question of prices of primary commodities;
- (e) The opening up of markets to Latin American manufactured goods; and
- (f) Financial and technical co-operation on the part of EEC for Latin America.

19. The group also suggested that machinery should be set up to co-ordinate particular aspects of Latin American trade policy and to make it possible for each country, in developing it, to take into account the interests of the region as a whole.

In the opinion of the group, the first step would be to establish a high-level committee for the co-ordination of trade policy. With technical advice from international organizations concerned with trade policy, and acting in close contact with Governments, this committee would prepare the bases for the application of a co-ordinated trade policy. Whenever desirable, the group itself could collaborate in the preparation of the negotiations in the manner and following the procedure determined by the Governments in each particular case on its merits.

20. The secretariat documents to which reference has been made above were studied for the first time at an international level at the meeting of the Inter-American Economic and Social Council (IA-ECOSOC) at Mexico City in October 1962. It was manifest on that occasion that the Governments attached great importance to the problems dealt with in those documents.

In pursuance of a programme which IA-ECOSOC has been carrying out, it was agreed at that meeting, after consideration of inter alia, the implications of the forthcoming United Nations Conference on Trade and Development, that it would be desirable to consider possible supplementary ways and means of solving the problems created in the Latin American countries by these events in accordance with the future trend of the events themselves. Likewise, it was thought desirable that until such time as a decision had been taken on the co-ordination of trade policy, working parties should be set up to seek solutions to certain commodity problems. Working party was set up forthwith for meat and others for bananas, sugar and cacao. In addition to decisions concerning foreign trade, a commission responsible for negotiating the abolition of restrictions on coffee consumption was given a new lease of life. It was also decided that, both in the analysis and study of problems relating to primary commodities, and in working out general lines for the development of negotiations, as much use as possible would be made of the advice of the Organization of American States (OAS), the Inter-American Development Bank (IDB) and ECLA, and that this joint action would be undertaken through the Tripartite Committee of the bodies referred to.

21. The above-mentioned meeting of IA-ECOSOC did not specify the method to be employed in preparing the basis firstly for formulating the trade policy and secondly for co-ordinating it. In any case, it was made clear on this occasion, as on others, what risks would be entailed by failure to unify and co-ordinate the trade policy of all the individual countries of Latin America, and how necessary it was to begin at the earliest possible moment to formulate a Latin American trade policy in the strict sense. Only if the separate action of the individual countries were brought into line with such a policy could individual action - where appropriate - be transformed into collective action.

/New developments

New developments

22. Following the events analysed in the documents already mentioned more than once (E/CN.12/631 and E/CN.12/632), and the meeting of IA-ECOSCC in Mexico, certain highly important new developments occurred, to with:

- (a) The suspension of the negotiations that had been taking place between EEC and the United Kingdom with a view to the possible inclusion of the latter as a member of the European Common Market;
- (b) The progress of the work of bringing the African countries into association with EEC, which culminated in the completion of the draft statutes concerned;
- (c) The convening by the United Nations of an international Conference on Trade and Development;
- (d) Certain favourable statements made in the EEC Commission in support of active economic co-operation with Latin America, which might make it possible to open negotiations to facilitate European imports of manufactured goods produced by the Latin American countries.

23. The first of these developments has given new force to certain vital questions, even though the present state of affairs may not represent anything more than an episode in the process of incorporation of the United Kingdom as a member of EEC. The following are some of the questions that arise:

Has the possibility of establishing a kind of broad Atlantic economic community been ruled out? It should be borne in mind that there was some prospect that within the framework of such a community there might be support for the idea of encouraging exports of manufactured and semi-manufactured goods from the less developed countries.

Be that as it may, what will be the repercussions of the present situation on the possibility of putting this idea into effect at the time of the sixth tariff conference?

/Will there

Will there now be a long period of readjustment in the contractual position of EEC with other groups -- including the European Free Trade Association (EFTA) -- and with large countries like the United States and the United Kingdom?

Whatever may be the final outcome of these events and of subsequent developments, it seems clear that Latin America has come to a crossroads, where a firm and positive collective stand is required in the face of the world trade factors that are now operating. Thus far the Latin American countries have to some extent taken the position of mere bystanders, but as a result of the new ideas of integration and solidarity that are taking shape in the region, it may be possible to formulate joint action that would enable the region to establish or strengthen a substantial flow of trade with the rest of the world, on the basis of appropriate negotiations with all the groupings or individual economies that appear to offer promising prospects.

24. Turning to the second of the developments referred to, the renewal of the statute or agreement between the group of African countries and EEC is known to be very likely. In fact the negotiations concerned were completed on 20 December 1962, although no date has yet been set for signature by the twenty-four Contracting Parties. Meanwhile the period of validity of the previous statute which would have expired on 31 December 1962, has been extended.

The new agreement, providing for the continuance of the system established by the former agreement, envisages free entry into Europe for goods from the associated African countries. The latter, on the other hand, are empowered to maintain or establish duties on goods imported from EEC countries if this is necessary to stimulate industrial development, or for fiscal reasons. In addition a Development Fund is established, one of its aims being to facilitate the marketing of African products.

There is no doubt that the system established by Europe for the benefit of Africa is causing serious misgivings in Latin America.

25. The third of the developments referred to is the convening by the United Nations of an international Conference on Trade and Development.

/The matters

The matters dealt with will include the need to extend international co-operation in foreign trade, whose present structure does not seem to be the most suitable for providing a substantive contribution to the development of the countries with backward economies. No doubt one of the main concerns of the Conference will be the possible treatment of imports of manufactured goods from the great industrial centres, including those where the labour input represents a large part of unit cost.^{4/}

In this connexion, as in others, we again come up against the need to begin the preparatory work to provide the basis for a future trade policy for the Latin American countries, and possible joint action on certain matters. In default of this it will be difficult to take proper advantage of the opportunities that this international conference will provide for the strengthening of the economy.

26. The favourable attitude of the EEC Commission towards making contacts with Latin America is the fourth of the developments referred to above.

^{4/} The second meeting of the preparatory committee of the international Conference on Trade and Development, which is to meet in Geneva on 21 May 1963, will have before it the following questions:

- (a) Expansion of international trade and its significance for economic development;
- (b) Trade in manufactured and semi-manufactured goods;
- (c) The growth of invisible trade in the countries in the course of development;
- (d) The implications of regional economic groups;
- (e) Financing for the expansion of international trade;
- (f) Institutional arrangements, methods and machinery suitable for the application of measures aimed at the expansion of international trade.

/The contacts

The contacts in question would not exclude possible understandings on the question of tariff incentives to stimulate the diversification of exports.^{5/}

27. As regards these proposed contacts, it should be recalled that EEC is preparing to apply a single trade policy. This body will take part as a single participant in the conference on tariff negotiations related to the United States Trade Expansion Act. Furthermore, EEC has announced that before 1 July 1963 a joint proposal will be made by all its members on the abolition of the quantitative restrictions in force for third countries with which it trades in dollars. It has also announced that it will adopt a common saving clause to incorporate the various restrictive measures that thus far have been adopted individually by its members. For countries such as those belonging to the Council for Mutual Economic Assistance (COMECON), with which EEC maintains bilateral trade relations, it will replace individual import quotas and national schedules of exemptions by common quotas and procedures established by negotiations in which the members of EEC will act collectively.

The background data given here, and other data, show clearly that if the Latin American countries are to reach an understanding with EEC they will also be well advised to prepare for collective action.

5/ The contacts between the ECLA secretariat and EEC in 1961 included an agreement that each would undertake parallel studies aimed at defining existing problems in the trade relations of the Latin American countries with those of the European Common Market, and exploring possible solutions. This resulted in the preparation by ECLA of documents E/CN.12/631 and E/CN.12/632, and in the production of the study made at the request of EEC by the Hamburgisches Welt-Wirtschafts-Archiv, referred to on page 53 of document E/CN.12/631.